

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Table of Contents

	Page
Report on Compliance with Requirements Applicable to the Major Program and on Internal Control over Compliance in Accordance with Office of Management and Budget (OMB) Circular A-133	1
Schedule of Expenditures of Federal Awards and State and Local Matching Funds	3
Notes to Schedule of Expenditures of Federal Awards and State and Local Matching Funds	5
Schedule of Findings and Questioned Costs	6

SAR
2/16/10



KPMG LLP
55 Second Street
San Francisco, CA 94105

**Report on Compliance with Requirements Applicable to the Major Program
and on Internal Control over Compliance in Accordance with Office of
Management and Budget (OMB) Circular A-133**

The Honorable Mayor, Board of Supervisors,
and Municipal Transportation Agency Board of Directors
City and County of San Francisco, California:

Compliance

We have audited the compliance of the San Francisco Municipal Transportation Agency (SFMTA) of the City and County of San Francisco, California (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. SFMTA's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of SFMTA's management. Our responsibility is to express an opinion on SFMTA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SFMTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on SFMTA's compliance with those requirements.

In our opinion, SFMTA complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of SFMTA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered SFMTA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SFMTA's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards and State and Local Matching Funds

We have audited the basic financial statements of the San Francisco Municipal Transportation Agency (SFMTA) of the City and County of San Francisco, California (the City) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 24, 2009. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and state and local matching funds is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, Board of Supervisors, San Francisco Municipal Transportation Agency Board of Directors, management, SFMTA's federal awarding agencies, and its pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 28, 2010, except for schedule of expenditures
of federal awards and state and local matching funds,
which is as of November 24, 2009

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY
Schedule of Expenditures of Federal Awards and State and Local Matching Funds
Year ended June 30, 2009

Federal agency/ pass through entity/ project number	Grant title	Grant number	Catalog of Federal Domestic Assistance number	Project cost (100%) including award amount	Expenditures	
					July 1, 2008 to June 30, 2009 Total federal awards and state and local matching funds	Federal share
Federal Transit Cluster:						
Federal Transit Administration Capital Improvement Grant:						
Direct:						
CPT470	Central Control Facility	CA-03-0619	20.500	\$ 1,237,536	86,813	69,134
Various CPTs	Metro East Facility	CA-03-0673	20.500	44,147,950	307,794	298,479
Various CPTs	Fixed Guideway	CA-03-0708	20.500	29,022,954	2,134,603	1,737,040
CPT544	3rd St. Phase II – New Central Subway	CA-03-0767	20.500	45,328,125	12,196,970	9,756,297
CPT540-432	Design and Construction of Islais Creek	CA-04-0007	20.500	4,616,519	161,772	129,418
CPT592-593	Terminal Intermodal Facility Renovation	CA-04-0008	20.500	981,529	111,322	20,376
Various CPTs	Fixed Guideway 2006	CA-05-0200	20.500	36,817,212	1,048,942	(2,089)
Various CPTs	Fixed Guideway 2007	CA-05-0215	20.500	58,184,276	3,222,396	1,271,685
Various CPTs	FY'08 Fixed Guideway Program	CA-05-0225	20.500	51,475,522	1,441,744	483,114
Various CPTs	Radio Replacement & 3rd St. #1	CA-15-X001	20.500	4,000,000	1,101,700	1,101,700
CPKA46_F3	HPP FLEX Funds for SFGO – Van Ness Corridor Improvement	CA-55-0002-0	20.500	4,987,498	2,390	1,496
	Total Capital Improvement Grants			280,799,121	21,816,446	14,866,650
Federal Transit Administration Capital and Operating Assistance Formula Grants:						
CPT544	3rd St. Phase II New Central Subway	CA-95-X057	20.507	4,000,000	787,994	787,994
Various CPTs	Section 9 FY 98/99	CA-90-X893	20.507	94,314,742	1,304,387	1,217,091
Various CPTs	Section 9 FY 99/00	CA-90-X957	20.507	130,769,544	1,735,216	1,123,562
Various CPTs	Section 9-FY 01/02	CA-90-Y124	20.507	97,163,424	315,325	194,776
Various CPTs	Section 9 FY 02/03	CA-90-Y212	20.507	58,311,566	3,784,707	3,652,041
Various CPTs	Section 9-FY 03/04	CA-90-Y245	20.507	61,177,139	3,897,878	3,202,424
Various CPTs	Section 9-FY 04/05	CA-90-Y348	20.507	79,263,019	3,612,215	3,227,341
Various CPTs	Section 9-FY 05/06	CA-90-Y424	20.507	57,118,745	2,667,242	2,145,821
Various CPTs	Section 9-FY 06/07	CA-90-Y533	20.507	39,818,104	5,066,736	4,981,932
Various CPTs	Section 9-FY 07/08	CA-90-Y624	20.507	47,712,174	1,811,104	981,815
Various CPTs	Section 9-FY 08/09	CA-90-Y749	20.507	38,627,761	4,809,899	3,847,919
	Total Capital and Operating Assistance Formula Grants			708,276,218	29,792,703	25,362,716
American Recovery and Reinvestment Act of 2009:						
Various APTs	ARRA – Infrastructure enhancement & maintenance	CA-96-X014-00	20.507	67,245,980	7,688,882	7,688,882
Pass Through Grants to Subrecipients from the Federal Transit Administration						
CPT585	Section 9-FY 01/02 (Ferry Terminal Project)	CA-90-Y124	20.507	1,098,750	456,074	364,859
	Total Pass Through Grants from the Federal Transit Administration			1,098,750	456,074	364,859
	Total of Federal Transit Cluster			1,057,420,069	59,754,105	48,283,107
Federal Transit Administration Capital Improvement Grant:						
Direct:						
CPT581	Alternative Fuel Consortium	CA-26-7001	20.519	497,050	126,696	126,696
	Total Federal Transit Administration Awards			1,057,917,119	59,880,801	48,409,803

(Continued)

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY
Schedule of Expenditures of Federal Awards and State and Local Matching Funds
Year ended June 30, 2009

Federal agency/ pass through entity/ project number	Grant title	Grant number	Catalog of Federal Domestic Assistance number	Project cost (100%) including award amount	Expenditures	
					July 1, 2008 to June 30, 2009 Total federal awards and state and local matching funds	Federal share
Pass-through Programs, State of California: Highway Research and Development Program: CPKA37 F2	SF Park Project 2009	VPPTCSPL-6328(015)	20.200	18,000,000	1,392,475	109,127
Highway Planning and Construction Cluster: CPKP84_08	Chinatown Safe Routes to Schools	SRTSL-6328(019)	20.205	144,000	15,118	15,118
CPKP79_08	3rd Street REST	C-001924	20.205	50,000	39,152	34,661
CPKP74_06	Tea Shared Lane Marking Project	RPSSTPL-5934(123)	20.205	368,000	82,656	73,176
CPKP76_07	Tea Ped Safety Education RPSSTPL-632(007)	RPSSTPL-6328(007)	20.205	303,000	70,770	37,489
CPKP80_08	Inner Sunset Traffic Calming & Transit Enhancement	RPSSTPL-6328(012)	20.205	166,618	57,416	26,148
CPKP81_08	Inner Sunset Traffic Calming & Transit Enhancement	RPSSTPL-6328(012)	20.205	146,382	54,120	47,912
CPKP75_06	Regional Signal Timing Program	C001546	20.205	135,580	86,190	43,739
CPKP83_08	Tenderloin Pedestrian Improvements	CML-6328(017)	20.205	452,100	58,455	46,800
CPKP82_08	Golden Gate Park Ped Improvements	CML-6328(018)	20.205	163,000	3,667	3,667
CPKP78_08	Var Bike Network Improvements	CML-6328(014)	20.205	115,000	467,678	328,710
	Total Highway Planning and Construction Cluster			2,043,680	90,433	87,960
State & Community Highway Safety: CPKP77_07	School Area: Bicycle, Pedestrian & Traffic Safety	PS0705	20.600	487,289		
Pass-through Programs, Metropolitan Transportation Commission: GPT176_177	Job Access & Reverse Commute (JARC)	CA-37-X076	20.516	703,125	2,212,273	703,125
Short Range Transit Plan CPT612	S RTP2009 - MTC	81-2003	20.931	50,000	30,016	26,573
	Total U.S. Department of Transportation			1,078,704,163	63,946,980	49,538,602
U.S. Department of General Services: General Services Administration CPT535	Radio System Replacement Project	MOU	None	744,000	562,198	562,198
Homeland Security: Direct Programs: CPT590	TSA-K9			452,500	108,889	108,889
Pass-through Program, State of California, Governor's Office of Homeland Security: State and Local Domestic Preparedness Training Program CPT586	2005-GBT5-0002 - Transit Security Grant - Rai OES ID # 075-95001	HST502-06-H-MLS117	97.072	1,857,550	316,793	316,793
CPT587	2005-GBT5-00002 - Transit Security Grant - Bu OES ID#075-95002		97.075	994,250	107,257	107,257
CPT618	2006-RL-T6-0001 - Transit Security Grant - Rail OES ID#075-95001		97.075	2,362,810	480	480
	Total Transit Security Grants			5,667,110	533,419	533,419
	Total Expenditures of Federal Awards - Non-FTA			27,695,204	5,288,492	2,351,112
	Total Expenditures of Federal Awards and State and Local Matching Funds			\$ 1,085,612,323	65,169,293	50,760,915

See accompanying notes to schedule of expenditures of federal awards and state and local matching funds.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Schedule of Expenditures of Federal Awards and State and Local Matching Funds

Year ended June 30, 2009

(1) General

The accompanying schedule of expenditures of federal awards and state and local matching funds presents activity of the federal award programs of the San Francisco Municipal Transportation Agency (SFMTA). SFMTA's reporting entity is defined in note 1 to SFMTA's basic financial statements. This program is a component of the City and County of San Francisco, and the report is issued at the request of management. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule of expenditures of federal awards and state and local matching funds.

(2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in note 2 to SFMTA's basic financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified Opinion**
- (b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **Yes**
- (c) Material weaknesses in internal control were disclosed by the audit of the financial statements: **No**
- (d) Noncompliance which is material to the financial statements: **No**
- (e) Significant deficiencies in internal control over major programs: **None Reported**
- (f) Material weaknesses in internal control over major programs: **No**
- (g) The type of report issued on compliance for major programs: **Unqualified Opinion**
- (h) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **No**
- (i) Major Program (Federal Transit Cluster):
 - Federal Transit Administration Capital Improvement Grants (CFDA No. 20.500)
 - Federal Transit Administration Capital and Operating Assistance Formula Grants (CFDA No. 20.507)
- (j) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,522,800**
- (k) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

2009-01. Lack of controls over inventory count process

Criteria

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Condition

In performing inventory count at the Green Warehouse on May 16, 2009, the count of stock item 024-10-0622 (Motor) was erroneously recorded by the warehouse personnel to be 32 items on hand, when the warehouse in fact had 6 items at the point of count.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Additionally, it was noted that approximately half of the counters of the Green Warehouse were also employed at the Green Warehouse, and for two of the five days, the count was supervised by two Green Warehouse supervisors.

Cause

Adequate controls over the inventory count process were not in place at the Green warehouse which could cause an error in the inventory count process.

Recommendation

In performing the inventory count in warehouses, management should implement general controls to prevent errors in recording the count.

Management Response

This observation reflects a problem where the counter did not observe the process established in the Inventory Instructions, to only count what is actually observed. In this instance, the maintenance Rebuild shop rebuilds a motor unit and does a "turn in" to the parts counter so it can be entered into the inventory system. Due to the part size and a lack of space in the Green Storeroom, many of the rebuilt items are located in the shop. When the maintenance department is in need of a rebuilt item stored in the shop, the item is taken and the storeroom is informed of a work order number for the item to be issued. The counter observed 6 of the (024-10-0622) Rebuilt PCC Motors in the Maintenance Department. He had prior knowledge of more than six and wrote the number he recalled instead of what he actually observed.

It has been the practice to utilize Muni storekeepers to conduct inventories, a process that enhances accuracy as the staff is familiar with the various parts. If the counter is familiar with the storeroom inventory, identification of an incorrectly placed part is facilitated. As a control measure, the staff conducting the actual count is not responsible for entering any of the data in the system.

With the goal of stricter controls, all counting staff will be trained in advance to comply with all Inventory Count Instructions, including counting only what is observed. Training sessions will include classroom instruction and practice counts to assure understanding and compliance with written instructions.

2009-02. Lack of control over the review of financial statements

Criteria

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Condition

The process of preparing the year-end financial statements includes performing a number of non-routine steps, as well as performing reviews of the resulting financial statements. During the current year we noted the following errors in the draft financial statements;

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

- A self-insurance adjustment was noted late in the process. Management should identify items earlier in the closing process and assign an accounting staff to ensure that the self-insurance related entries are properly recorded in the financial statements.
- As this was the first year complete SFMTA financial statements were compiled to be audited, several policy decisions had to be researched and made. However, \$114 million of cash received from fines, forfeitures, penalties and other was misclassified as non-capital financing activities in the statement of cash flows. Although such amounts were correctly presented on the statement of revenues, expenditures, and changes in net assets, different definitions are used for the statement of cash flows.

Cause

Non-routine transactions and disclosures were not appropriately reviewed during the preparation of the year-end financial statements.

Recommendation

When preparing financial statements, management should perform a thorough review of the information to ensure the amounts are properly captured and classified in the financial statements.

Management Response

- SFMTA management has historically performed review and evaluation of the agency's workers compensation data to ensure that the information is complete and accurately reflected in the agency's financial statements. This quality control review procedure would have also normally been performed at FY2009 fiscal year-end had it not been for the retirement of the manager in the unit. Going forward, SFMTA management will ensure that the quality control review procedures is performed and properly documented regardless of staff changes. In addition, SFMTA will continue to work with the Controller's Office to ensure the reconciliation process is completed.
- Given that FY2009 is the first year that SFMTA is issuing a financial report that includes the operations of MUNI, Parking and Traffic, and the Parking Garages, SFMTA management is very pleased that only two findings related to the financial statement presentation were identified. SFMTA correctly recorded the fines, forfeitures, penalties and others in the statement of revenues, expenditures and net assets while inadvertently misclassifying the cash from the same source as non-capital financing activities in the statement of cash flows. This is an oversight and SFMTA will ensure that proper review will be performed to avoid this from recurring in the future.

(3) Findings and Questioned Costs Relating to Federal Awards

None